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Michigan Agency for Energy Issues 2015 Summer Energy Appraisal

June 19, 2015 – The Michigan Agency for Energy today released the “Michigan Energy Appraisal: Summer 2015.” The appraisal, published since 1978, reviews the projected prices and availability of energy in Michigan over the summer months.

The demand for energy in Michigan is projected to increase across all sectors in 2015, assuming a return to normal summer weather and reflecting continued price advantages in the natural gas and petroleum markets. The electricity market will likely respond to these price points by increasing the amount of natural gas fueled generation compared to other fuels. Commercial and residential customers will benefit through lower heating and cooling bills, and lower prices at the gasoline pump, while industrial customers and shippers of manufacturing goods will likely benefit from a 25 percent reduction in diesel fuel prices. Given the anticipated demand and reserve margins within the region, there should be an adequate supply of electricity over the summer and for the remainder of the year.

Electricity – Assuming normal weather, Michigan’s total electric sales for 2015 are projected to increase by 1.4 percent to 104.1 thousand GWh compared to 102.7 thousand GWh in 2014. Modest increases are expected in the commercial and residential sectors, where commercial employment is expected to rise by 1.6 percent and colder than normal temperatures for the first quarter of the year led to strong heating demand. A return to normal summer weather would also contribute to commercial and residential sector growth as demand for cooling increases. In contrast, industrial sector demand, which is less dependent on weather fluctuations, is expected to be relatively flat, with only 0.2 percent growth. Given the anticipated demand and reserve margins within the MISO and PJM footprints, there should be an adequate supply of electricity over the summer and for the remainder of the year.

Natural Gas – Natural gas sales in Michigan are expected to increase by 1.3 percent even with expected consumption declines for the residential, commercial, and industrial sectors. Higher demand in the electric generation sector is expected to raise total annual natural gas sales in Michigan for 2015 to 853.4 billion cubic feet (Bcf), a 1.3 percent increase over 2014 consumption of 842.2 Bcf. According to the National Weather Service, last summer (May through September) was 32 percent cooler than normal and greatly reduced demand for natural gas peaking plants. Assuming a return

to normal summer weather, demand in the electric power sector is expected to increase as a result of higher demand for air conditioning. In addition to weather influenced demand, consumption for electricity generation is likely to be heavily influenced by the price of natural gas. EIA expects that natural gas usage for electric generation in the U.S. will grow by 13.7 percent in 2015. This growth will cause the proportion of electric generation from natural gas and coal to be in close convergence in 2015.

Petroleum – Michigan has limited crude oil production, peaking in 1979 at 35 million barrels per year and has since declined to 7.1 million barrels in 2014. As a result, the majority of crude oil is imported into Michigan. In 2013, Michigan consumed an estimated 166.5 million barrels of petroleum products. The majority of petroleum products consumed in the state are motor fuels, such as gasoline and diesel fuel. The EIA estimates that total U.S. liquid fuels consumption grew by 70,000 bbl/d (0.4 percent) in 2014, and is expected to grow by 370,000 bbl/d (2 percent) in 2015. Strong U.S. employment growth coupled with reduced gasoline prices will contribute to increased gasoline consumption of 130,000 bbl/d or 1.4 percent in 2015, compared to the 80,000 bbl/d growth seen in 2014. Much of this growth can be attributed to sharp decreases in global crude oil prices. EIA predicts that West Texas Intermediate (WTI) crude oil spot prices will average just over \$55 bbl in 2015, down from \$93 in 2014, a 41 percent reduction. Brent crude oil is expected to average about \$61 in 2015, a 38 percent discount to the 2014 average price.

Motor Gasoline – Gasoline sales in Michigan are expected to follow a recent trend of positive growth and are projected to increase by 1 percent in 2015 over 2014 sales, 4,363 vs. 4,319 million gallons, respectively. This will be the third straight year of gasoline consumption growth; only the fourth year since 2004 in Michigan. Significant decreases in the cost of crude oil, and resulting refined gasoline, have put upward pressure on gasoline sales. Retail gasoline prices for June 2015 are nearly a dollar less than at this point last year. The reduced cost coupled with improvements to the economy appears to counteract the effects that increases in fleet-wide fuel efficiency have had. According to AAA Fuel Gauge Report, the average price for a gallon of regular unleaded gasoline in Michigan was \$2.91/gallon as of June 12, 2015 down from \$3.89/gallon a year ago.

Distillate Fuel Oil – Distillate sales in Michigan are projected to increase by 1.2 percent in 2015 when compared to 2014, increasing to 1,135 from 1,121 million gallons, respectively. This increase follows a rather robust growth of 5.9 percent in 2014, which was a result of expanding industrial production as well as increased demand following a colder than normal winter. Diesel fuel remains the prime component of distillate demand, over 98 percent, with the majority being used for transportation by highway trucks and by rail. According to the AAA Fuel Gauge Report, Michigan on-highway retail

diesel fuel prices as of June 16 were \$2.87/gallon, \$1.03 (26 percent) lower than last year.

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